

**REPORT OF THE AUDIT OF THE  
MONTGOMERY COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2010**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE MONTGOMERY COUNTY SHERIFF**

**For The Year Ended  
December 31, 2010**

The Auditor of Public Accounts has completed the Montgomery County Sheriff's audit for the year ended December 31, 2010. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees decreased by \$1,642 from the prior year, resulting in excess fees of \$14,090 as of December 31, 2010. Revenues decreased by \$77,554 from the prior year and expenditures decreased by \$75,912.

#### **Report Comment:**

2010-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Disbursements

#### **Deposits:**

The Sheriff's deposits were insured by the Federal Deposit Insurance Corporation.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Wallace Johnson, Montgomery County Judge/Executive  
The Honorable Fred Shortridge, Montgomery County Sheriff  
Members of the Montgomery County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Montgomery County, Kentucky, for the year ended December 31, 2010. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2010, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 4, 2011 on our consideration of the Montgomery County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Wallace Johnson, Montgomery County Judge/Executive  
The Honorable Fred Shortridge, Montgomery County Sheriff  
Members of the Montgomery County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2010-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Disbursements

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Montgomery County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

August 4, 2011



MONTGOMERY COUNTY  
FRED SHORTRIDGE, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2010

Revenues

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	53,001
State Fees For Services:		
Finance and Administration Cabinet	\$	20,050
Sheriff Security Service	<u>12,735</u>	32,785
Circuit Court Clerk:		
Fines and Fees Collected		430
Fiscal Court		426,881
County Clerk - Delinquent Taxes		36,851
Commission On Taxes Collected		328,626
Fees Collected For Services:		
Auto Inspections	8,397	
Accident and Police Reports	899	
Serving Papers	69,029	
Carrying Concealed Deadly Weapon Permits	5,065	
10% Add-on Fees	45,991	
Advertising Fees	960	
Conveying Prisoners	13,652	
HB 413 - Fines/Fees For Cities	14,334	
Miscellaneous	<u>3,535</u>	161,862
Other:		
City of Maysville/Buffalo Trace Narcotics Taskforce	64,074	
Kentucky Agency for Substance Abuse Policy	9,600	
Equipment Rebate	14,215	
Revenue Department Refund	3,251	
City of Mt. Sterling	<u>1,145</u>	92,285
Interest Earned		273
Borrowed Money:		
State Advancement		<u>120,515</u>
Total Revenues		1,253,509

The accompanying notes are an integral part of this financial statement.

MONTGOMERY COUNTY  
 FRED SHORTRIDGE, SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2010  
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 434,776
Part-Time Salaries	47,531
Other Salaries	25,863
Overtime	31,808
KLEFPF	39,783

Employee Benefits-

Employer's Share Social Security	35,714
Employer's Share Retirement	3,693
Employer's Share Hazardous Duty Retirement	167,368
Employer Paid Health Insurance	99,187
Unemployment Insurance	4,380

Contracted Services-

Advertising	141
Vehicle Maintenance and Repairs	16,817

Materials and Supplies-

Office Materials and Supplies	16,009
Uniforms	2,497

Auto Expense-

Gasoline	57,909
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Other Charges-

Conventions and Travel	1,270
Dues	728
Postage	9
Training	2,533
Prisoner Extraditions	5,800
Miscellaneous	5,788

Capital Outlay-

Office Equipment	10,276	
Technical Equipment	591	
Professional Equipment	4,786	
Vehicles	18,483	\$ 1,033,740

Debt Service:

State Advancement	120,515
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Total Expenditures \$ 1,154,255

The accompanying notes are an integral part of this financial statement.

MONTGOMERY COUNTY  
FRED SHORTRIDGE, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2010  
(Continued)

Net Revenues	\$ 99,254
Less: Statutory Maximum	<u>81,540</u>
Excess Fees	17,714
Less: Training Incentive Benefit	<u>3,624</u>
Excess Fees Due County for 2010	14,090
Payment to Fiscal Court - June 6, 2011	<u>14,090</u>
Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

MONTGOMERY COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2010 services
- Reimbursements for 2010 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2010

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MONTGOMERY COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2010  
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent for the first six months and 16.93 percent for the last six months.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.97 percent for the first six months and 33.25 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Montgomery County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MONTGOMERY COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2010  
(Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Montgomery County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Additional Bank Accounts

A. Asset Forfeiture Account

The Sheriff maintains an account that consists of funds obtained through drug forfeitures and seizures. The balance was \$1,540 on January 1, 2010, receipts during the year were \$3,807 including \$7 interest earned, and expenditures were \$1,425 for equipment of the Sheriff's office. As of December 31, 2010, the balance was \$3,922.

B. Cold Check Clearing Account

The Sheriff maintains an account that consists of funds collected for cold checks. After the Sheriff collects funds for cold checks, the amount collected is then paid to the business that received the cold check. The balance was \$4,584 on January 1, 2010, collections during the year were \$36,233, and \$36,940 was returned to businesses. As of December 31, 2010, the balance was \$3,877.

C. Drug Enforcement Account

The Sheriff's office maintains a drug enforcement account. This account is funded by donations and is for the purpose of drug prevention and detections. The balance was \$1,750 on January 1, 2010, receipts during the year were \$6,157, and expenditures were \$110. As of December 31, 2010, the balance was \$7,797.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Wallace Johnson, Montgomery County Judge/Executive  
The Honorable Fred Shortridge, Montgomery County Sheriff  
Members of the Montgomery County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Montgomery County Sheriff for the year ended December 31, 2010, and have issued our report thereon dated August 4, 2011. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Montgomery County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying comment and recommendation as item 2001-01 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Montgomery County Sheriff's financial statement for the year ended December 31, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Montgomery County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Montgomery County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

August 4, 2011

COMMENT AND RECOMMENDATION



MONTGOMERY COUNTY  
FRED SHORTRIDGE, SHERIFF  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2010

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2010-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Disbursements

The Sheriff has a lack of adequate segregation of duties over disbursements. The Sheriff's bookkeeper prepares all disbursements including payroll and records these payments in the disbursements ledger. The bookkeeper also prepares the quarterly financial report and monthly bank reconciliations. By not segregating these duties, there is an increased risk of misappropriation of assets either by error or fraud. In order to reduce this risk, we recommend the Sheriff or a person independent of disbursements reconcile the quarterly financial report and monthly bank statements to the receipt and disbursement ledgers. Approval should be documented on the bank reconciliation as well as the receipts and disbursements ledgers.

*Sheriff's Response: I agree and will monitor our monies to the best of our ability.*

